

**YOSEMITE INSURANCE COMPANY**

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YOSEMITE INSURANCE COMPANY**STATUTORY MANAGEMENT'S DISCUSSION AND ANALYSIS****DECEMBER 31, 2008****GENERAL**

Yosemite Insurance Company, (Yosemite or the Company), is a property and casualty insurance company domiciled in Indiana and licensed in 47 states. Yosemite writes or assumes (through affiliated and non-affiliated insurance companies) credit-related property and casualty and credit involuntary unemployment insurance. Yosemite's credit-related property and casualty insurance policies are written to protect the lender's interest in property pledged as collateral for the American General Finance, Inc. (AGFI's) finance receivable. Yosemite's credit involuntary unemployment insurance policies provide, to the lender, payment of the installments on AGFI's finance receivable coming due during a period of the borrower's involuntary unemployment.

Yosemite is a wholly owned subsidiary of American General Finance Corporation (AGFC). AGFC was incorporated in Indiana in 1927 as successor to a business started in 1920. All of the common stock of AGFC is owned by AGFI, which was incorporated in Indiana in 1974. Since August 29, 2001, AGFI has been an indirect wholly owned subsidiary of American International Group, Inc. (AIG), a Delaware corporation. AIG is a holding company which, through its subsidiaries, is engaged in a broad range of insurance and insurance-related activities, financial services and asset management in the United States and abroad. At December 31, 2008, AGFI and its subsidiaries had 1,413 branch offices in 40 states,

Puerto Rico and the U.S. Virgin Islands and approximately 8,000 employees. The 90 employees of the AGFI's insurance business segment have numerous underwriting, compliance, and service responsibilities for AGFI's insurance companies and also provide services to AGFI's branch and centralized real estate business segments. AGFI's, AGFC's, and Yosemite's executive offices are located in Evansville, Indiana.

Yosemite holds an investment in subsidiary, CommoLoCo, Inc. CommoLoCo, Inc. is in the consumer finance business originating secured and unsecured loans throughout Puerto Rico and the U.S. Virgin Islands. Primary operations include the offering of home equity loans throughout Puerto Rico, purchasing retail sales contracts and providing revolving services arising from the sale of consumer goods and services by retail merchants to consumers throughout Puerto Rico.

OVERVIEW

In the second half of 2008, AIG experienced an unprecedented strain on liquidity that led to intervention by the Federal Reserve Bank of New York ("NY Fed"). As a result, AIG has indicated its intent to refocus on its core property and casualty insurance businesses, to generate sufficient liquidity to repay the outstanding balance of its loan from the NY Fed, and to address its capital structure. AIG announced its intention to retain the majority of certain insurance-based operations and to explore divestiture opportunities for its remaining businesses, including AGFI and the Company.

This strain affected the liquidity of AGFI, which prevented access to traditional sources of long-term or short-term financing through the debt markets. One of the strategies being used by AGFI to help

improve its liquidity position is to reduce its originations of finance receivables, including consumer lending, where Yosemite's credit insurance products are sold.

Rating agencies assess a company's financial strength and ability to meet its obligations to policyholders. A.M. Best Company has assigned a rating of A (Excellent) and an outlook of negative to Yosemite. This rating reflects the company's strong capitalization, continued outstanding underwriting performance and consistently strong operating cash flows. The rating also acknowledges the synergies and benefits derived from its immediate parent, AGFC, which is recognized as one of the larger consumer finance services organizations in the United States while also functioning as Yosemite's direct marketing arm. Historically, Yosemite outperforms its peers in terms of underwriting profitability and overall operating returns. A.M. Best's rating is heavily based on the NY Fed's intervention and provision of immense capital levels to AIG. A.M. Best's future rating considerations are based on continued NY Fed intervention. The negative outlook reflects the interim concern of A.M. Best regarding the uncertainty of the continued capital and liquidity strain on AIG.

Yosemite experienced a \$28.9 million net underwriting gain for 2008, which was an increase of \$460 thousand, or 2%, from 2007. The increase in net underwriting gain was primarily the result of a \$4.1 million increase in premium volume offset by a \$3.6 million increase in total underwriting expenses. The increase in premium volume consists of an increase of fire earned premium of \$3.6 million and an increase in auto premium of \$1.5 million offset by a decrease of personal property earned premium of \$1.1 million. The increase in total underwriting expenses primarily consists of increases in losses incurred of \$3.4 million, an increase in loss expense incurred of \$.5 million, partially offset by a decrease of \$.3 million in other underwriting expenses.

Yosemite's net income in 2008 was \$44.5 million compared to \$41.1 million in 2007. The higher net income in 2008 resulted from the underwriting gain and a \$3 million increase in net investment gain. The increase in net investment gain was attributed to realized gains of \$4.7 million partially offset by a reduction in investment income earned of \$1.7 million.

Industry and Economic Conditions

Interest Rates. The pricing and profit margins of the products offered by Yosemite are relatively insensitive to interest rates. However, fluctuations in interest rates affect the value and duration of the assets supporting these products. Yosemite may respond to fluctuations in interest rates by repricing products and/or changing investment strategy.

Taxation. Tax laws affect not only the way the Company is taxed but also the design of many of its products. Changes in tax laws or regulations could adversely affect operating results. The Company monitors federal and state tax legislation and responds with appropriate tax planning in order to minimize the impact of taxation. There were no significant tax law changes affecting operating results in 2008.

Guaranty Assessments. All states in which Yosemite conducts business have laws requiring solvent property/casualty insurance companies to pay assessments to state guaranty associations to protect the interests of policyholders of insolvent property/casualty insurance companies. A portion of these assessments can be recovered against the payment of future premium taxes; however, changes in state laws could decrease the amount available for recovery. Yosemite was assessed \$7 thousand during 2008 and \$7 thousand during 2007 under such laws. At year-end 2008, the accrued liability for

anticipated unrecoverable assessments was \$126 thousand, compared to \$116 thousand at year-end 2007. Management regularly reviews its liability with regard to future guaranty assessments and believes its reserve to be adequate.

Risk-Based Capital Regulation. The National Association of Insurance Commissioners (NAIC) uses a risk-based capital (RBC) formula to evaluate the adequacy of a property/casualty insurance company's statutory equity. The RBC formula specifies various weighting factors that are applied to financial balances or levels of activity of each company based on the perceived degree of risk to calculate RBC. The RBC ratio is determined by dividing a property/casualty insurance company's total adjusted capital by its Authorized Control Level RBC.

The RBC requirements provide for four different levels of regulatory attention depending on an insurance company's RBC ratio, the least severe of which is the Company Action Level. At the Company Action Level, a company must submit a comprehensive financial plan to the State Insurance Commissioner that discusses proposed corrective actions to improve its capital position. A company's target statutory equity as determined by the NAIC is 2.5 times the Company Action Level RBC (or 5.0 times the Authorized Control Level RBC.) At December 31, 2008, Yosemite had statutory equity in excess of 20 times the Company Action Level RBC (or 40 times the Authorized Control Level RBC). Yosemite believes that its statutory equity is more than adequate to satisfy its foreseeable financial obligations.

FINANCIAL CONDITION - BALANCE SHEET

Yosemite's balance sheets at December 31, 2008 and 2007 are summarized in the table below:

(\$ in thousands)	2008	2007	\$ CHANGE	% CHANGE
ASSETS				
Cash and Invested Assets	\$ 398,473	\$ 544,001	\$ (145,528)	(27%)
Premiums & Agents' Balances	7,069	4,501	2,568	57%
Investment Income Due & Accrued	3,733	7,448	(3,715)	(50%)
Reinsurance Recoverable	78	68	10	15%
Current Federal Income Tax Recoverable	-	688	(688)	(100%)
Net Deferred Tax Asset	2,209	1,902	307	16%
TOTAL ASSETS	\$ 411,562	\$ 558,608	\$ (147,046)	(26%)
LIABILITIES				
Reserves	\$ 87,922	\$ 86,487	\$ 1,435	2%
Provision for Reinsurance	3,924	4,237	(313)	(7%)
Other Liabilities	5,636	2,590	3,046	118%
TOTAL LIABILITIES	97,482	93,314	4,168	4%
CAPITAL & SURPLUS	314,080	465,294	(151,214)	(32%)
TOTAL LIABILITIES & CAPITAL & SURPLUS	\$ 411,562	\$ 558,608	\$ (147,046)	(26%)

FINANCIAL CONDITION - ASSETS

Investment Strategy. Yosemite's objectives are to meet obligations to policyholders, customer expectations for competitive products and shareholder expectations for competitive returns. Yosemite designed its asset/liability management program to maintain a reasonable balance in the duration of assets and liabilities while achieving liquidity and profitability objectives by minimizing its exposure to fluctuating interest rates. Yosemite performs asset/liability management on an ongoing basis.

Yosemite's investment portfolio is managed to optimize long-term profitability subject to pre-established risk constraints. These risk constraints include:

- Minimizing exposure of Yosemite's surplus to fluctuations in interest rates,

- Ensuring adequate liquidity to meet liability cash flow requirements, and
- Maintaining an adequate level of statutory equity.

The Company does not use derivative financial instruments or off-balance-sheet transactions for asset/liability management purposes.

Cash and Invested Assets.

Yosemite's cash and invested assets at December 31, 2008 and 2007 are summarized in the table below:

(\$ in thousands)	2008 FAIR VALUE	2008 BOOK/ADJUSTED CARRYING VALUE	2007 FAIR VALUE	2007 BOOK/ADJUSTED CARRYING VALUE
BONDS	\$ 230,898	\$ 235,281	\$ 496,794	\$ 477,120
PREFERRED STOCKS	4,828	4,828	5,194	5,194
COMMON STOCKS	51,992	51,992	52,599	52,599
TOTAL BONDS AND STOCKS	287,718	292,101	554,587	534,913
CASH	(463)	(463)	(350)	(350)
SHORT TERM INVESTMENTS	102,741	102,741	6,192	6,192
OTHER INVESTED ASSETS	4,078	4,078	3,239	3,239
RECEIVABLE FOR SECURITIES	16	16	7	7
TOTAL CASH & INVESTED ASSETS	\$ 394,090	\$ 398,473	\$ 563,675	\$ 544,001

The book value and carrying value of Yosemite's total cash and invested assets decreased \$146 million, or 26.8%, at December 31, 2008 compared to the prior year, primarily due to the sale of investments to pay dividends to its parent.

Bonds. At year-end 2008, 95% of Yosemite's bond portfolio was rated as Highest Quality by the NAIC, compared to 99% at year-end 2007. At December 31, 2008, 4% of the bond portfolio was rated as High Quality by the NAIC, compared to 0.4% at December 31, 2007. These two classes of bonds represented 85% of total cash and invested assets and 82% of total assets at December 31, 2008 compared to 88% of total cash and invested assets and 86% of total assets at December 31, 2007, respectively. The average credit quality of the Yosemite bond portfolio was rated "Aaa" by Moody's at

December 31, 2008, no change from 2007. Below investment grade securities have credit ratings below BBB. Yosemite held below investment grade bonds of \$1.4 million at December 31, 2008 and \$2.2 million at December 31, 2007. Below investment grade bonds represented less than 1% of Yosemite's total cash and invested assets at December 31, 2008, no change from 2007. Yosemite held \$3 thousand of mortgage-backed securities at December 31, 2008 and \$4 thousand at December 31, 2007. The Company considers bonds to be non-performing when the payment of interest is sufficiently uncertain as to stop the accrual of interest or if bonds receive a NAIC designation of 6 or 6Z. Yosemite held one bond with a par value of \$298 thousand deemed non-performing at December 31, 2008 as follows:

Name	Purchase Date	Maturity Date	Book Adjusted Carrying Value	NAIC Designation	December 31, 2008 Interest in Default
1. MTS Inc.	2006	March, 2009	-	6	0

Yosemite held one non-performing bond at December 31, 2007. The book adjusted carrying value of the bond portfolio fell \$242 million, or 51%, for the year ended December 31, 2008 primarily due to the sale of investments to pay dividends to its parent.

Preferred Stocks. At December 31, 2008, \$4.8 million, or 1%, of Yosemite's total cash and invested assets consisted of preferred stocks compared to \$5.2 million, or 1%, at December 31, 2007.

Cash on Hand and Short Term Investments. Cash on hand and short-term investments increased by \$96 million, or 1651%, at December 31, 2008 compared to December 31, 2007 primarily due to increase in short term investments. Short term investments were held at the end of 2008 for the payment of dividends in January 2009.

Other Invested Assets. Yosemite held minority interests in two limited partnerships in 2008. Yosemite has an additional commitment to these limited partnerships of \$1.8 million, which may be funded over the next one to three years depending on the partnership's funding requirements. The original commitment to each partnership was for a ten year period.

Premiums and Agents' Balances. Premiums and agents' balances in the course of collection at December 31, 2008 increased by \$2.6 million, or 57%, from December 31, 2007. The higher premiums and agents' balances are due to a \$2.5 million increase in premiums receivable for auto, dwelling, and involuntary unemployment insurance at December 31, 2008 compared to December 31, 2007.

FINANCIAL CONDITION - LIABILITIES & SURPLUS

Reserves. Yosemite's aggregate reserves increased \$1.4 million in 2008 primarily because of a \$1.4 million increase in loss reserves. The independent actuarial opinion for Yosemite certifies that all reserve levels are sufficient.

Other Liabilities. Other liabilities increased \$3 million, or 118%, from the prior year due mainly to an increase of \$2.5 million in current federal and foreign income taxes, an increase in payable to parent of \$.4 million, and an increase of \$.2 million in accrued taxes, licenses and fees.

Dividends Declared and Unpaid. Yosemite paid cash dividends totaling \$196 million to its parent company in 2008. An ordinary dividend was paid on August 14, 2008 of \$46 million and an extraordinary dividend was paid on December 29, 2008 of \$150 million. Yosemite did not declare or pay a dividend in 2007.

Capital and Surplus. Capital and surplus at December 31, 2008 totaled \$314 million, a decrease of \$151 million, or 32.5%, over the prior year. The decrease was primarily attributed to a \$196 million payment of dividends to stockholders, a \$.4 million decrease in unrealized capital gains/losses, partially offset by a \$.4 million increase in net deferred income tax and a \$.3 million decrease in the provision for reinsurance.

RESULTS OF OPERATIONS

Yosemite's results from operations for the years ended December 31, 2008 and 2007 are summarized in the table below:

(\$ in thousands)	2008	2007	\$ CHANGE	% CHANGE
Premiums Earned	\$ 61,015	\$ 56,923	\$ 4,092	7%
Losses & Loss Expenses Incurred	20,226	16,308	3,918	24%
Other Underwriting Expenses	11,816	12,102	(286)	(2%)
Net Underwriting Gain	28,973	28,513	460	2%
Net Investment Gain	27,001	23,992	3,009	13%
Miscellaneous Income	187	199	(12)	(6%)
Net Income Before Taxes	56,161	52,704	3,457	7%
Federal Income Taxes	11,621	11,638	(17)	(0%)
NET INCOME	\$ 44,540	\$ 41,066	\$ 3,474	8%

Earned Premiums. Earned premiums increased \$4.1 million, or 7%, from 2007. The increase in earned premiums is primarily due to an increase in auto premium of \$1.5 million, fire premium of \$3.6 million, and involuntary unemployment premium of \$115 thousand, offset by a decrease in personal property premium of \$1.1 million. The steady increase in net written premium since the first quarter of 2006 has significantly slowed the net run off of premium reserves experienced in previous years.

Losses and Loss Expenses Incurred. Yosemite's losses and loss adjustment expenses (LAE) incurred for the years ended December 31, 2008 and 2007 are summarized in the table below:

(\$ in thousands)					
At or for the year ended December 31, 2008	Losses Paid	Losses Unpaid Current Year	Losses Unpaid Prior Year	Losses Incurred	Change in Loss reserves
Fire	6,989	3,242	2,476	7,755	766
Inland marine	204	427	516	115	(89)
Credit accident and health	0	0	2	(2)	(2)
Other liability - occurrence	(20)	10,921	11,132	(231)	(211)
Auto physical damage	3,961	3,351	3,027	4,285	324
Surety	0	0	1	(1)	(1)
Credit	0	0	0	0	0
Reinsurance-Nonproportional Assumed Liability	66	5,564	5,435	195	129
IUI	3,696	4,179	3,705	4,170	474
Totals	14,896	27,684	26,294	16,286	1,390

At or for the year ended December 31, 2007	Losses Paid	Losses Unpaid Current Year	Losses Unpaid Prior Year	Losses Incurred	Change in Loss reserves
Fire	4,643	2,476	2,489	4,630	(13)
Inland marine	297	516	645	168	(129)
Credit accident and health	5	2	11	(4)	(9)
Other liability - occurrence	172	11,132	10,822	482	310
Auto physical damage	3,897	3,027	2,619	4,305	408
Surety	0	1	1	0	0
Credit	0	0	0	0	0
Reinsurance-Nonproportional Assumed Liability	474	5,435	4,151	1,758	1,284
IUI	2,269	3,705	4,426	1,548	(721)
Totals	11,757	26,294	25,164	12,887	1,130

Change from prior year	Losses Paid	Losses Unpaid Current Year	Losses Unpaid Prior Year	Losses Incurred	Change in Loss reserves
Fire	2,346	766	(13)	3,125	779
Inland marine	(93)	(89)	(129)	(53)	40
Credit accident and health	(5)	(2)	(9)	2	7
Other liability - occurrence	(192)	(211)	310	(713)	(521)
Auto physical damage	64	324	408	(20)	(84)
Surety	0	(1)	0	(1)	(1)
Credit	0	0	0	0	0
Reinsurance-Nonproportional Assumed Liability	(408)	129	1,284	(1,563)	(1,155)
IUI	1,427	474	(721)	2,622	1,195
Total	3,139	1,390	1,130	3,399	260

	LAE Paid	LAE Unpaid Current Year	LAE Unpaid Prior Year	LAE Incurred	Change in LAE reserves
At or for the year ended December 31, 2008	3,683	4,621	4,364	3,940	257
At or for the year ended December 31, 2007	3,412	4,364	4,356	3,420	8
Change from prior year	271	257	8	520	249

Losses and Loss Adjustment Expenses	3,410	1,647	1,138	3,919	509
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Losses and loss expenses incurred increased \$3.9 million, or 24%, from 2007. The increase is primarily due to an increase of \$3.4 million in losses incurred and a \$.5 million increase in loss adjustment

expenses incurred. The increase in losses incurred is primarily due to an increase of \$3.1 million in fire claims, an increase of \$2.6 million in IUI claims, partially offset by a \$2.3 million decrease in Excess and Surplus claims.

Other Underwriting Expenses. Other underwriting expenses incurred decreased \$286 thousand, or 2%, from 2007 because of a \$506 thousand reduction in net commissions and brokerage fees paid and a reduction of \$65 thousand in other underwriting expenses partially offset by a \$281 thousand increase in taxes, licenses and fees. The decrease in commission expense is attributed to decreases in direct personal property and involuntary unemployment insurance premium from the previous year.

Net Investment Gain or (Loss). Net Investment Gain increased by \$3 million, or 12.5%, from 2007 primarily due to a \$4.7 million increase in net investment gain on sale of bonds and \$1.7 million decrease in net investment income. The decrease in net investment income is primarily due to a \$1.6 million decrease in other invested asset income.

Federal Income Taxes. Federal income tax expense decreased \$17 thousand or .2% compared to 2007, due to an increase in tax exempt interest and an increase due to the true-up. Federal income tax expense as a percentage of taxable income was 23% in 2008 and 22% in 2007.

The following table reconciles current statutory federal income tax rates to Yosemite's effective tax rates for 2008 and 2007:

	2008	2007
Income tax expense at applicable rate	35%	35%
Tax-exempt interest	(11%)	(12%)
Other	(1%)	(1%)
Total	23%	22%
Federal income taxes incurred	24%	21%
Change in net deferred income taxes	(1%)	1%
Total statutory income tax	23%	22%

CASH FLOW/LIQUIDITY

Yosemite receives its cash primarily from premiums, investment income and the sale or redemption of investments. It uses cash primarily to pay claims and operating expenses and to purchase investments.

Yosemite's cash flow for the years ended December 31, 2008 and 2007 is summarized in the table below:

(\$ in thousands)	2008	2007
Premiums collected net of reinsurance	\$ 58,234	\$ 59,765
Net Investment Income	27,300	24,454
Miscellaneous Income	187	199
TOTAL	85,721	84,418
Benefit and loss related payments	14,906	11,446
Commissions, expenses paid and aggregate write-ins for deductions	15,361	16,083
Federal and foreign income taxes paid	10,896	11,853
NET CASH FROM OPERATIONS	44,558	45,036
Total investment proceeds	311,350	35,030
Total investments acquired	63,920	79,163
Dividends to stockholders	(196,000)	-
Other cash provided (applied)	448	(1,077)
NET CHANGE IN CASH & SHORT-TERM INVESTMENTS	\$ 96,436	\$ (174)

The maximum amount of dividends that can be paid by Indiana domiciled property & casualty insurance companies without the prior approval of the Indiana Insurance Commissioner in a 12-month period, measured retrospectively from the date of payment, is the greater of: (a) ten percent (10%) of surplus as regards policyholders as of December 31, 2008; or (b) the net income of such insurer for the year ended December 31, 2008. Yosemite's surplus as regards policyholders at December 31, 2008 was \$314 million. Yosemite's net income for the year ended December 31, 2008 was \$44.5 million.

The maximum dividend Yosemite may pay without approval in 2008 is \$31.4 million. Dividends are paid as determined by the Board of Directors and are non-cumulative. Yosemite paid an ordinary dividend on August 14, 2008 of \$46 million and an extraordinary dividend on December 29, 2008 of \$150 million. Yosemite did not declare or pay any dividends in 2007.

The Company has an inter-company demand note with American General Finance Corporation. These borrowings are on demand and are unsecured. The Company may repay part or all of any advance and interest thereon at any time without premium or penalty. Interest will accrue on the unpaid principal amount of each advance until such principal amount is paid in full, calculated as follows: interest equal to the outstanding principal balance on each day of the month multiplied by one month LIBOR plus 25 basis points will be charged for the month. (LIBOR is herein defined as the one month "London Interbank Offered Rate" quoted by the Lender at approximately 11:00 a.m. London time, or as soon thereafter as practicable, appearing on the Telerate Service page 3750, or such other page as may replace that page in that service, as the London Interbank Offered Rate for Dollar deposits). All interest calculations shall be made on a basis of a year consisting of 360 days. At December 31, 2008, there

were no outstanding intercompany borrowings between Yosemite and American General Finance Corporation. Yosemite had no additional outstanding capital commitments at December 31, 2008 other than \$1.8 million to the limited partnerships.